

OL Files

MEMORANDUM FOR: Director of Communications

25X1

FROM:

[REDACTED]  
Acting Director of Logistics

SUBJECT: Budgeting for Transportation

REFERENCES: A. Memo to D/L fm D/OC dtd 24 Sep 79,  
(OC-M79-646), same subj

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B. [REDACTED]

1. We understand your concern regarding transportation costs when contracts call for F.O.B. origin, but must point out that the policy expressed in subparagraph b(5) of Reference B is not unique to the Agency nor are there practical alternatives to this policy such as use of the Single Transportation Allotment (STA) as you suggest in Reference A.

2. Our current policy is based on standard Government-wide procurement procedures. The Code of Federal Regulations (41CFR 1-1.000) recognizes that the request for proposal (RFP) and the subsequent contract will state whether the goods are to be F.O.B. destination (preferred) or F.O.B. origin. In certain cases (and costly technical equipment would certainly be included), it may be in the best interest of the Government to accept delivery at place of origin to meet critical delivery dates or to take advantage of preferential freight rates available to the Government, but not the contractor. The crux of the matter is who pays for transportation from point of origin. Again, we hark back to procurement procedures adhered to by both DoD and the Federal Supply Service (FSS). The basic principle is that transportation, packing and handling charges from place of origin to the purchaser's facility are considered an integral part of the initial procurement. The intent is that such costs will be capitalized into the unit cost of the item(s) procured. This policy is incorporated into 41CFR 1-15.202 (Direct Costs) and 1-15.204.5 (Transportation Costs). The latter citation reads in part:

This document can be downgraded to Unclassified when attachments are removed.

**SUBJECT: Budgeting for Transportation**

Transportation costs include freight, express and postage relating to goods purchased, in process, or delivered. These costs are allowable...Outbound freight, if reimbursable under the terms of the contract, shall be treated as a direct cost. (Emphasis added.)

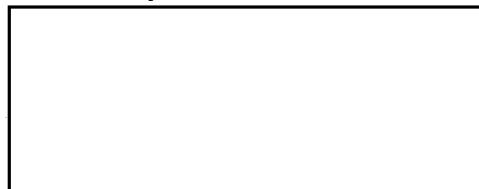
Thus, the onus for these costs falls upon the requisitioner. This was true prior to the creation of the STA and has remained the policy during the ten years or so of the STA's existence.

3. In the procurement cycle, the contracting officer must, as a matter of prudence, obtain the requested goods at the lowest overall cost, including drayage. In those cases where F.O.B. origin is incorporated into the contract, the contractor is generally required to prepay shipping and transportation costs. The contractor will subsequently claim such costs as a separate item on its invoice for payment. This shipping/transportation cost will be liquidated by the Office of Finance in its General Accounting System (GAS) by charging an account titled "freight." This Code 3 charge will then be charged back to the requisitioning office. As we understand your proposal, this shipping/transportation charge would be liquidated by charging the STA vice the FAN under which the original contract was obligated.

4. Our basic problem with using the STA to cover such costs as enumerated above is not just philosophical, but practical. Unless the STA was to be an open-ended fund without limits, there is no practical way for OL to manage such a policy change since, until OF liquidated a charge against the STA, OL would not, in many instances, be privy to the cost data. Customers could routinely request premium transportation and contracting officers be prone to disregard what is now a built-in cost knowing full well that such costs, regardless of the total, would not impact on the contract cost per se. When the STA was established, there were some definite strings attached and the one which concerns us in this discussion may be found   wherein it states: 25X1  
"The Office of Logistics is responsible for recording obligations for all costs relating to transportation of Agency materiel directed and controlled by the Office of Logistics" (emphasis added.) Reference A proposal would, in our view, result in a double negative: OL would be in no position to control transportation costs; the contracting officer would no longer have any reason to control transportation costs. From the standpoint of good management alone, such a situation simply cannot be tolerated.

SUBJECT: Budgeting for Transportation

5. I trust the foregoing will explain our rationale for not endorsing a change to current policy, vis-a-vis the STA. However, should special problems arise with a particular contract, we will, as we have in the past, cooperate in any way possible to find an acceptable solution.



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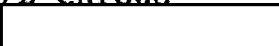
Distribution:

Orig - Adse

1 - OL/SD/OSB Official

① - OL Files

1 - D/L chrono

OL/SD/OSB:  (5 <sup>OCT</sup> Sep 79)

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**CONFIDENTIAL**

OC-M79-646  
24 SEP 1979

MEMORANDUM FOR: Director of Logistics

25X1

FROM:

[REDACTED]  
Director of Communications

SUBJECT:

Budgeting for Transportation [REDACTED]

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1. The Office of Communications is concerned regarding the present and future administration of transportation costs as expressed in [REDACTED] paragraph 5, dated 26 April 1979. Our specific concerns are with the selected method of shipment as defined in [REDACTED] and the exception to the providing of transportation costs as expressed in [REDACTED] paragraph 5 b (5). [REDACTED]

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2. Delicate/costly technical equipment is not specifically provided for [REDACTED]. These factors do and should influence methods of shipment and, therefore, it would seem appropriate to include a reference to them as a part of the regulations and procedures pertaining to shipment of government property. [REDACTED]

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3. A more difficult situation is created by the fact that this regulation specifically excludes OL budgeting for transportation between the vendor and the Logistics depot or other point where the materiel comes under Agency control. There are occasions when we have no practical choice but to accept FOB plant of manufacture. Such conditions as technical and acceptance requirements, vendor refusal to accept responsibility for shipment and inflated vendor shipping costs lead to the necessity for FOB plant of manufacture. [REDACTED]

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4. OC does not budget for transportation costs and has not since budgeting for these costs were centralized in OL approximately ten years ago in accordance with DDA policy. We are most reluctant to get back into the business of budgeting for transportation since it is believed that this is an appropriate and logical OL provided service. Should OL not provide this service, we will have no choice but to budget for it. [REDACTED]

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SUBJECT: Budgeting for Transportation

25X1

5. I would appreciate your early consideration of this matter so I can plan accordingly.

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ROUTING AND RECORD SHEET

SUBJECT: (Optional)

FROM:  
STAT

Director of Logistics

EXTENSION

NO.  
OL 9 4013a

DATE  
10 OCT 1979

STAT

TO: (Officer designation, room number, and building)

DATE

RECEIVED

FORWARDED

OFFICER'S  
INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. Director of Commo.

Bill:

STAT

The attached sounds a little legalistic and bureaucratic, but the bottom line is simply that the STA was not set up to cover transportation costs associated with delivery of goods under contract. While the STA handles cost of transportation after the item is received into the logistics system, direct costs associated with delivery to the Agency remain the responsibility of the component entering into the contract.

STAT

Acting Director , OL

Attachment

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EO/OL:

(9 Oct 79)

STAT